

D.T.E. 00-109

Petition of Massachusetts Electric Company and Nantucket Electric Company for Approval of a Rate Reconciliation and Adjustment Filing.

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Intervenor

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FOR: WESTERN MASSACHUSETTS ELECTRIC

COMPANY

Limited Participant

## I. INTRODUCTION

On December 1, 2000, pursuant to the Restructuring Settlement approved by the Department of Telecommunications and Energy (“Department”) in Massachusetts Electric Company and Nantucket Electric Company, D.P.U./D.T.E. 96-25 (1997), Massachusetts Electric Company (“MECo”) and Nantucket Electric Company (collectively, “MECo” or “Company”) filed its 2000 rate reconciliation and adjustments filing. The Company proposed to implement the adjustments to its rates beginning January 1, 2001, for usage on and after that date. The Department docketed the filing as D.T.E. 00-109. This filing represents the Company’s third annual reconciliation filing since passage of the Electric Utility Restructuring Act, Chapter 164 of the Acts of 1997 (“Electric Restructuring Act”). The Company’s previous two reconciliation filings were Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 98-123 (1999) and Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 99-111 (2000).<sup>1</sup>

The Company’s current filing includes adjustments to its standard offer adjustment factor, default service adjustment factor, transition service charge, transmission charge, demand-side management (“DSM”) charge, and renewables charge. On December 19, 2000, in accordance with the Department’s Order in Standard Offer Service Fuel Adjustments,

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<sup>1</sup> In D.T.E. 99-111, the Company provided actual costs and revenues for the period January 1, 1999 through September 30, 1999 and estimated costs and revenues for the period October 1999 through December 1999. In the current filing, the Company reconciled the October 1999 through December 1999 estimated costs and revenues with actual costs and revenues. In this filing, the Company also provided actual costs and revenues for the period January 2000 through September 2000 and provided estimated costs and revenues for the period October 2000 through December 2000.

D.T.E. 00-66, 00-67, 00-70 (December 4, 2000 Letter Order), the Company filed modifications to its December 1, 2000 filing, withdrew its December 1, 2000 tariffs, and implemented superceding adjustments to its existing tariffs. On December 21, 2000, the Attorney General of the Commonwealth (“Attorney General”) filed comments. By Order dated December 22, 2000, the Department approved the proposed tariffs subject to further investigation.<sup>2</sup>

The Department conducted a public hearing and a procedural conference on February 27, 2001. The Attorney General filed a notice of intervention pursuant to G.L. c. 12, § 11E. The Department allowed the Division of Energy Resources’ (“DOER”) motion to intervene and granted Western Massachusetts Electric Company’s motion for limited participation.

The Department conducted an evidentiary hearing on May 10, 2001. The Company sponsored the testimony of three witnesses: Michael Hager, director of energy distribution services; Peter Zschokke, vice-president and director of distribution financial analysis; and Pamela Viapiano, manager of transmission regulation and policy of New England Power Company (“NEP”). The evidentiary record consists of 25 Department exhibits, 35 Attorney

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<sup>2</sup> On January 5, 2000, the Department issued an order in Massachusetts Electric Company, D.T.E. 99-111, approving MECo’s 1999 reconciliation filing subject to further reconciliation. The parties reached a settlement that resolved all issues before the Federal Regulatory Energy Commission (“FERC”) and filed the settlement with FERC on June 12, 2001. Subsequently, after determining that there were no further adjustments to make, the Department issued a Letter Order closing the docket in D.T.E. 99-111 (2001).

General exhibits, five Company exhibits, five responses to Attorney General record requests, and two responses to DOER record requests.

## II. DESCRIPTION OF THE FILING

For rates effective January 1, 2001, the Company proposed the following adjustments: (1) to increase the standard offer adjustment factor from negative \$0.00019 per kilowatthour (“KWH”) to \$0.00280 per KWH; (2) to increase the default service adjustment factor from \$0.00028 per KWH to \$0.00198 per KWH; (3) to decrease the transition charge on average from \$0.01192 per KWH to \$0.00741 per KWH; and (4) to increase the transmission charge on average from \$0.00626 per KWH to \$0.00878 per KWH (Exhs. ME-1, Book 1 of 2, at 7; ME-2, at 3). In addition, pursuant to G.L. c. 25, §§ 19 and 20, the Company decreased its DSM charge from \$0.00285 per KWH to \$0.00270 per KWH and decreased its renewables charge from \$0.00125 per KWH to \$0.00100 per KWH (Exhs. ME-1, Book 1 of 2, at 7; ME-2, at 3).

## III. COMMENTS

The Attorney General requested that the Department implement a one-year combined standard offer and default service deferral charge for all MECo customers except those receiving power under contract with a competitive supplier (Attorney General Comments at 2). The Attorney General asserted that such an approach maintains the “universal responsibility for deferred under-recoveries, while requiring a more equitable sharing of the responsibility for deferred power costs among those who benefitted from the pricing that led to calendar year 2000 power cost deferrals” (*id.*).

#### IV. STANDARD OF REVIEW

In Massachusetts Electric Company and Nantucket Electric Company, D.P.U./D.T.E. 96-25 (1997), the Department found that MECo's Restructuring Settlement was consistent with or substantially complied with G.L. c. 164. In reviewing annual reconciliation filings, the Department must ensure that the proposed reconciliations are consistent with or substantially comply with the Electric Restructuring Act, the Company's approved restructuring plan, applicable law, and Department precedent.

#### V. ANALYSIS AND FINDINGS

##### A. Standard Offer and Default Service Adjustment Factors

The Company proposed an increase to its standard offer adjustment factor from a negative \$0.00019 per KWH to \$0.00280 per KWH (Exh. ME-1, Book 1 of 2, at 14). The Company's Restructuring Settlement and Standard Service Cost Adjustment Provision, M.D.T.E. No. 981-A, requires the Company to reconcile its total cost of purchased power for standard service supply with its total standard service revenue (Exh. ME-1, Book 1 of 2, at 9-10). Reconciling the period October 1999 through September 2000 results in a total under-collection of standard service costs of \$42,342,708, including estimated interest of \$1,500,342 (Exh. ME-1, Book 1 of 2, at 10, 42, 52). The total under-collection, including interest, is then divided by forecasted 2001 KWH sales which yields a standard service adjustment factor of \$0.00280 per KWH (Exh. ME-1, Book 1 of 2, at 52).

The Company proposed an increase in its default service adjustment factor from \$0.00028 per KWH to \$0.00198 per KWH (Exh. ME-1, Book 1 of 2, at 17). The Company's Default Service Cost Adjustment Provision, M.D.T.E. No. 987-A, requires the Company to reconcile its default service revenue and default service expenses (Exh. ME-1, Book 1 of 2, at 15). Reconciling the period October 1999 through September 2000 results in a total under-collection of default service costs of \$40,422,993, including estimated interest of \$1,432,318 (Exh. ME-1, Book 1 of 2, at 15, 55, 62). The total under-collection, including interest, is then divided by forecasted 2001 KWH sales which yields a default service adjustment factor of \$0.00198 per KWH (Exh. ME-1, Book 1 of 2, at 62).

In his comments, the Attorney General asked the Department to consider implementing a one-year combined standard offer and default service deferral charge, asserting that such an approach maintains the "universal responsibility for default service under-recoveries, while requiring a more equitable sharing of the responsibility for deferred power costs among those who enjoyed the benefits of the pricing that led to the calendar year 2000 power cost deferrals" (Attorney General's Comments at 2). The Company's Restructuring Settlement,<sup>3</sup> however, states that "[i]n the event that the revenues billed by Mass. Electric do not recover Mass. Electric's payments to suppliers or Mass. Electric defers expenses to meet the inflation cap . . . Mass. Electric shall be authorized to accumulate the deficiencies . . . together with interest . . . and recover those amounts by implementing a uniform cents per kilowatthour

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<sup>3</sup> The Department notes that the Attorney General was a signatory to the Restructuring Settlement.

surcharge on the rates for standard offer service.” Massachusetts Electric Company,

D.P.U./D.T.E. 96-25-A (Exh. Meco-11, vol. 1, at 16) (1997).

In a recent reconciliation mechanism Order, the Department stated that recovery of standard offer service deferrals from all customers “burdens all customers with the standard offer service deferrals and penalizes those customers that have never benefitted from standard offer service, such as new customers after March 1, 1998.” Cambridge Electric Light Company/Commonwealth Electric Company, D.T.E. 99-90-C at 77-78 (2001). Thus, in D.T.E 99-90-C at 77-78, the Department rejected a proposal for recovery of standard offer service deferrals from all customers. In addition, the Department has stated that default service acts “as insurance for all customers who enter the competitive market or who enter new service territories” and therefore default service under- or over-recoveries should be collected from all retail customers. Pricing and Procurement of Default Service, D.T.E. 99-60-C at 13 (2000). Therefore, the Department rejects the Attorney General’s proposed treatment of standard offer and default service deferrals as inconsistent with Department precedent.

The Department reviewed the method the Company proposed to calculate the standard offer and default service adjustment factors. The Department finds that the Company calculated the standard offer adjustment factor consistent with the method established in the Company’s Restructuring Settlement, which the Department approved in D.P.U./D.T.E. 96-25, at 23-26, and which is embodied in the Company’s Standard Service Cost Adjustment Provision, M.D.T.E. No. 981-A. The Department also finds that the Company calculated the default



service adjustment factor consistent with the method established in the Company's Restructuring Settlement, which the Department approved in D.P.U./D.T.E. 96-25-A (Exh. MECo-11, vol. 1, at 18), and which is embodied in the Company's Default Service Cost Adjustment Provision, M.D.T.E. No. 987-A. Accordingly, the Department approves the Company's standard offer and default service adjustment factors.

B. Decrease in Transition Charges

MECo formerly bought electricity from NEP as an all-requirements wholesale customer. As a condition of MECo terminating its generation supply contract with NEP, it now pays NEP a contract termination charge ("CTC") that is approved by the Federal Energy Regulatory Commission ("FERC"). FERC Docket Nos. ER97-678-000, ER-98-6-000; D.P.U./D.T.E. 96-25, at 1, 6-8. The Department's jurisdiction in MECo's annual transition charge reconciliation filing is limited because the Company is an all-requirements customer of NEP, which is regulated by FERC. The Department is empowered to exercise jurisdiction over MECo only to the extent that it is not preempted by FERC. Eastern Edison Company v. Department of Public Utilities, 388 Mass. 293 (1983).

The Company's transition charge consists of two components: (1) a uniform per KWH charge, or "base" transition charge, that the Company collects from all customers and that recovers from retail customers the CTC assessed by NEP and Montaup to MECo; and (2) rate-class specific adjustment factors that reconcile any excess or deficiency in CTC recovery from each respective rate class in the prior year (Exh. ME-1, Book 1 of 2, at 18). The Company proposed adjustments to both factors.

The Company proposed lower transition charges, ranging from \$0.00362 per KWH to \$0.00794 per KWH, depending on the rate class adjustment factor, including a decrease for the residential R-1 rate class from \$0.01192 per KWH to \$0.00741 per KWH (Exh. ME-2, at 3). The Department reviewed the methods the Company used to calculate the proposed transition charges. The Company calculated its base transition charge and the rate-class specific adjustments consistent with the method established in the Company's Restructuring Settlement, which the Department approved in D.P.U./D.T.E. 96-25, at 26-28,<sup>4</sup> and is embodied in the Company's Transition Cost Adjustment Provision, M.D.T.E. No. 1029. Therefore, the Department approves the proposed transition charges.

C. Transmission Service Rates

The Company's transmission service rates are comprised of two components: (1) the base transmission service rate; and (2) the transmission service adjustment factor (Exh. ME-1, Book 1 of 2, at 27-28). The Company proposed adjustments to both factors (id.). The transmission service adjustment factor was calculated by dividing the under-collection of transmission expense for the period October 1999 through September 2000 by the forecasted KWH sales for calendar year 2001 (Exh. ME-1, Book 1 of 2, at 27). For the period October 1999 through September 2000, the Company incurred an under-collection of \$25,278,723, which resulted in a transmission service adjustment factor of \$0.00123 per KWH (Exh. ME-1, Book 1 of 2, at 27, 105).

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<sup>4</sup> The same method was established in Eastern Edison Company's restructuring plan approved in Eastern Edison Company, D.P.U./D.T.E. 96-24 (1997).

The base transmission service rate is established annually based on a forecast of transmission costs incurred by the Company to provide transmission service to its retail customers (Exh. ME-1, Book 1 of 2, at 27-28). The Company provides transmission service to its retail customers under three FERC approved tariffs: NEP's Electric Tariff No.9, NEPOOL's Electric Tariff No. 1, and ISO-NE's Electric Tariff No. 1 (Exh. ME-1, Book 2 of 2, at 198; Tr. at 11). The Company forecasted its transmission expense for 2001 to be approximately \$154 million based on its knowledge of the NEP, NEPOOL, and ISO-NE billing processes (Exh. ME-1, Book 2 of 2, at 203). This forecasted transmission expense yields an average rate of \$0.00755 per KWH, which, when compared to the currently-effective transmission rate of \$0.00570 per KWH, represents a 35 percent increase (Exhs. ME-1, Book 1 of 2, at 107; Book 2 of 2, at 206). The primary reasons for the forecasted increase to the transmission expense are increases in congestion costs<sup>5</sup> and energy uplift charges<sup>6</sup> which represent a 29 percent and seven percent increase respectively (Exh. ME-1, Book 2 of 2, at 206). These increases are partially offset by a net one percent decrease in NEPOOL and NEP PTF<sup>7</sup> and Non-PTF<sup>8</sup> charges (Exh. ME-1, Book 2 of 2, at 206). The Company proposed

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<sup>5</sup> The Company incurs congestion uplift costs when a transmission constraint calls for the dispatching of a more expensive generation unit or a higher-cost unit than would have otherwise been dispatched (Tr. at 23). Hence, as a result of a transmission constraint, the difference between the more expensive generation unit's bid price and the energy clearing price is termed congestion uplift (Tr. at 23).

<sup>6</sup> Energy uplift costs represent the amount that a generation unit's dispatched bid price exceeds the energy clearing price (Tr. at 23). This occurs when a generator's minimum run time exceeds its period needed or is asked to run for reserve purposes (Tr. at 23).

<sup>7</sup> Access provided over New England's looped transmission facilities

to allocate its forecasted transmission expenses to each rate class based on each rate classes' contribution to the coincident peak<sup>9</sup> (Exh. ME-1, Book 1 of 2, at 28).

The Department reviewed the methods the Company used to revise the base transmission service charge and to make rate class-specific adjustments. The Department finds that the Company calculated these charges consistent with the transmission rates approved by FERC, the Company's Transmission Cost Adjustment Provision, M.D.T.E. No. 977-D, and the class-specific allocation approved in Massachusetts Electric Company/Eastern Edison Company, D.T.E. 99-47-A at 2 (2000). Therefore, the Department approves the Company's transmission charges.

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<sup>7</sup>(...continued)

greater-than or equal to 69 KV is commonly known as Pool Transmission Facilities or "PTF" (Exh. ME-2, at 199).

<sup>8</sup> Access provided over NEP's local transmission facilities are considered Non-PTF (Exh. ME-2, at 199).

<sup>9</sup> Coincident peak represents the ratio of the maximum demand on MECo's transmission system as a whole to the sum of each of MECo's rate classes.

V. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That the proposed rate adjustments submitted by Massachusetts Electric Company and Nantucket Electric Company on December 21, 2000 for service on and after January 1, 2001 are, subject to the limitations stated, APPROVED, subject to further reconciliation and review; and it is

FURTHER ORDERED: That Massachusetts Electric Company and Nantucket Electric Company shall comply with the directives of this Order.

By Order of the Department,

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James Connelly, Chairman

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W. Robert Keating, Commissioner

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Paul B. Vasington, Commissioner

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Eugene J. Sullivan, Jr., Commissioner

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Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).